



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Littlefield Unified School District No. 9

As of November 21, 2003



STATE OF ARIZONA
OFFICE OF THE
**AUDITOR
GENERAL**

Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

Accounting Services Division Staff

Jerry Strom, Manager and Contact Person
jstrom@auditorgen.state.az.us

Roger Walter
Tracy Pytlakowski
Paula Gustafson

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General
2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.auditorgen.state.az.us



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

January 21, 2004

Governing Board
Littlefield Unified School District No. 9
P.O. Box 730
Beaver Dam, AZ 86432

Members of the Board:

We completed a status review of the deficiencies cited in our September 18, 2002, report. The purpose of our most recent status review, conducted as of November 21, 2003, was to determine whether the District is now in compliance with the *Uniform System of Financial Records* (USFR). Our review, which consisted primarily of inquiries and selective testing of accounting records and control procedures, was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all instances of noncompliance with the USFR were disclosed.

Based on our status review, the District has complied with the USFR. However, a number of deficiencies still exist. In this report, we describe recommendations to correct those deficiencies. District management should implement these recommendations to ensure that the District continues to fulfill its responsibility to establish and maintain adequate internal controls and to continue to comply with the USFR. We have communicated specific details regarding how to correct all deficiencies to management.

We must emphasize that our determination of the District's compliance with the USFR at this time is based solely on testwork we performed related to the deficiencies cited in our September 18, 2002, report. After the District submits its audit reports and USFR Compliance Questionnaire for the year ended June 30, 2003, we will review them and reassess the District's compliance for the year ended June 30, 2003, based on any new deficiencies cited by the auditors along with the existing deficiencies noted in this report.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this status review report.

Sincerely,

Debra K. Davenport
Auditor General

TABLE OF CONTENTS



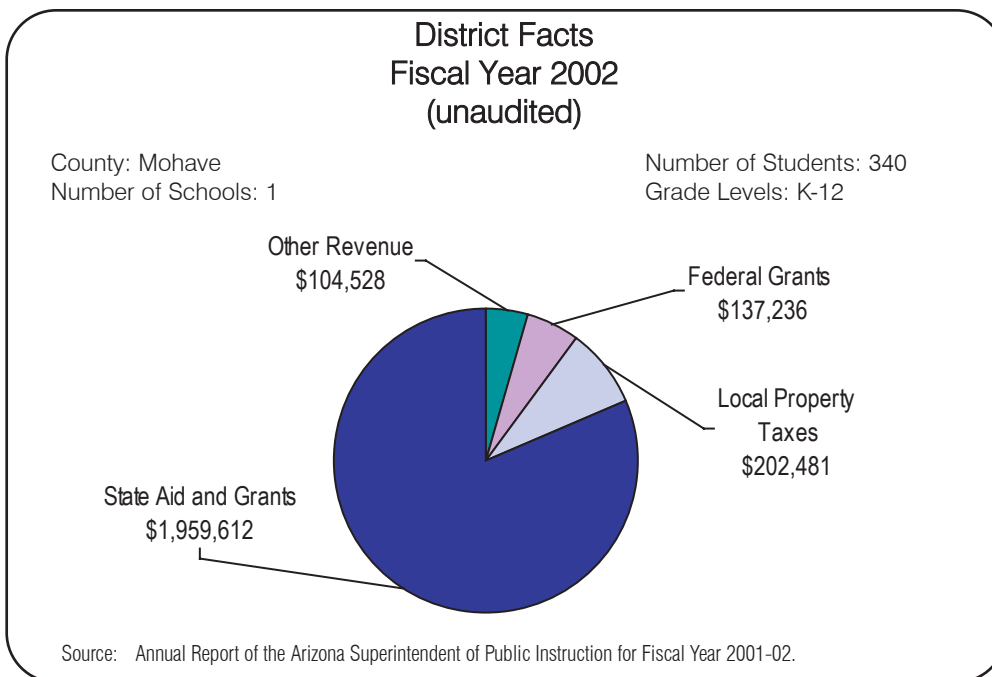
Introduction	1
Recommendation 1: The District must adhere to the conflict-of-interest statutes	2
Recommendation 2: The District must follow competitive purchasing requirements	2
Recommendation 3: The District should strengthen controls over credit card purchases and payments	4
Recommendation 4: The District's student attendance reporting should be accurately maintained	5

INTRODUCTION

Littlefield Unified School District No. 9 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$2.4 million it received in fiscal year 2001-02 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District complied with the USFR. However, we noted certain deficiencies in controls that the District's management should correct to ensure that it continues to fulfill its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFR. Our recommendations are described on the following pages.



The District must adhere to the conflict-of-interest statutes

Arizona Revised Statute (A.R.S.) §38-503 and the District's policies require that any governing board member or employee of the District who has, or whose relative has, a direct or indirect substantial interest in any contract, sale, purchase, or service to the District must make that interest known in the official records of the District. In addition, board members and employees must refrain from voting upon or participating in any decisions relating to any contract, sale, purchase, or service to the District in which they or their relatives have a substantial interest.

The Governing Board violated conflict-of-interest statutes when voting to award a contract.

However, two governing board members voted to award a contract to a company in which they had an indirect financial interest. Specifically, the board president and another member of the board voted to award a contract for \$22,100 to Trade West Construction when the board president's husband and the board member work as independent subcontractors for Trade West Construction. In addition, the District did not maintain a conflict-of-interest file for governing board members and employees.

Recommendations

To help strengthen control over expenditures, the District should ensure that all governing board members and employees who have, or whose relatives have, a direct or indirect substantial interest in any contract, sale, purchase, or service to the District make that interest known in the District's records in a conflict-of-interest file. In addition, board members and employees must refrain from voting upon or participating in any manner in that decision or contract, sale, purchase, or service to the District.

The District must follow competitive purchasing requirements

The District failed to obtain sealed bids based on the total amount purchased from a food service company and did not follow all required procurement rules when bidding a construction project.

School District Procurement Rules for competitive sealed bidding promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public money they spend. However, the District did not follow the School District Procurement Rules. Specifically, for one construction contract, the District did not give adequate notice of the invitation for bids (IFB), and did not include bid evaluation factors in the IFB. In addition, the District purchased

over \$12,000 between July and November 2003 from one food service vendor, and to date had encumbered another \$14,000 to the same vendor. Further, the District purchased over \$45,000 from this vendor last year. Therefore, the District should have anticipated that the total purchases from this food service company would require the use of competitive purchasing.

Recommendations

To strengthen controls over competitive purchasing and to comply with School District Procurement Rules, the District should establish and follow the policies and procedures listed below:

- Obtain competitive sealed bids or proposals for purchases of construction, materials, or services exceeding \$32,700. The purchase may be a single item, or it may be a collection of items that, in the aggregate, exceed \$32,700.
- Publish the notice of the IFB twice in the official county newspaper where the District is located if the District's prospective bidders list has four or fewer vendors for the needed goods or services. The District should publish the IFB twice in the newspaper at least 6 to 10 days apart, and the second publication should appear at least 2 weeks before the IFB's opening date.
- Include all required information in the IFB, including bid evaluation factors and a statement that all information and bids submitted by bidders are available for public inspection following the award of the contract.
- Award the contract to the lowest responsive bidder whose bid conforms to the criteria set forth in the IFB. The District should retain documentation showing the basis for determining the successful bidder in its official records.
- If the District receives only one bid, it should document a complete bid evaluation, including a determination that the price is fair and reasonable and that the contract would benefit the District, before awarding the contract.
- Use the Simplified School Construction Procurement Program only for construction projects that do not exceed \$150,000, provided the County School Superintendent maintains an up-to-date list of persons who desire to receive solicitations to bid on construction projects within the County.

School District
Procurement Rules
provide the requirements
for:

- Competitive sealed bids for goods and services in excess of \$32,700.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

The District should strengthen controls over credit card purchases and payments

The District spends tax dollars to purchase various goods and services, so it is essential that the District follows procedures designed to help ensure that its purchases serve an educational or public purpose, it obtains the best possible value for its money, and it maintains support for those transactions.

The District incurred late fees and finance charges of approximately \$150 for September and October 2003.

However, the District did not always spend its money for an appropriate educational or public purpose. For example, the District failed to pay its credit card bills on time and in full each month. As a result, the District incurred late fees and finance charges of approximately \$150 for the months of September and October 2003. Further, the District was charged a fee for exceeding its credit limit for one of its credit cards. Finally, the District did not always ensure that credit card receipts were signed and vendor receipts were itemized before paying the charges.

Recommendations

To help ensure credit card purchases are appropriate and payments are made timely, the District should:

- Strictly limit and restrict credit card usage to expenditures that require immediate payments, such as freight, fuel, travel, and emergency vehicle repairs.
- Require employees using credit cards to submit signed receipts and itemized vendor receipts to the District as soon as possible.
- Prepare and retain documentation to support all credit card expenditures. Such documentation should clearly indicate the employee making the purchase and the specific school purpose for the expenditure. Receipts for fuel or vehicle repair should also include the vehicle license plate number.
- Compare credit card billing statements to the supporting documentation for propriety. Since installment purchases are not allowed, partial payments may not be made and payments must be made in a timely manner to avoid finance charges.

The District's student attendance reporting should be accurately maintained

The State of Arizona provides funding to school districts based on average daily membership and attendance. In turn, the State requires school districts to accurately document entry and withdrawal dates, attendance, and absences. However, the District did not properly record membership and/or absences for seven grades tested. In addition, withdrawal dates for seven of ten student withdrawals tested were not properly recorded.

Recommendations

To help ensure accurate student membership and attendance reporting, the District should record withdrawals as of the last day of actual attendance and ensure that the last day of attendance is counted as a membership day. Further, a second district employee should compare the withdrawal dates on the Official Notice of Pupil Withdrawal forms to the District's attendance records.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.